

**CALVIN NELMS  
CHARTER HIGH SCHOOL, INC.  
DBA  
CALVIN NELMS CHARTER SCHOOL**

**Audit Report**

**August 31, 2018 and 2017**

**TONJA BARNEBEE CPA, PC  
Certified Public Accountant**

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**900 W. Ennis Ave, Ste. 103  
Ennis, Texas 75119**

Calvin Nelms Charter High School, Inc.  
DBA  
Calvin Nelms Charter School  
For the Years Ended August 31, 2018 and 2017

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Calvin Nelms Charter High School, Inc.  
DBA: Calvin Nelms Charter School  
Federal Employer Identification Number: 76-0600747  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School was reviewed and (check one) ☒ approved \_\_\_ disapproved for the year ended August 31, 2018, at a meeting of the governing body of the charter holder on the 18<sup>th</sup> day of December, 2018

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

**NOTE:** If the governing body of the Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

# TONJA BARNEBEE CPA, PC

## Certified Public Accountant

Ennis 972-875-9900

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Ennis, TX 75119

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Calvin Nelms Charter High School, Inc.

DBA: Calvin Nelms Charter School

#### **Report on the Financial Statements**

I have audited the accompanying financial statements of Calvin Nelms Charter High School Inc., DBA: Calvin Nelms Charter High School (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Calvin Nelms Charter High School Inc., DBA: Calvin Nelms Charter High School as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

##### ***Other Information***

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses and schedule of capital assets are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information



directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 26, 2018, on my consideration of Calvin Nelms Charter High School Inc., DBA: Calvin Nelms Charter High School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Calvin Nelms Charter High School Inc., DBA: Calvin Nelms Charter High School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Calvin Nelms Charter High School Inc., DBA: Calvin Nelms Charter High School's internal control over financial reporting and compliance.

***Tonja Barnebee CPA, P.C.***

Tonja Barnebee CPA, P.C.

Ennis, Texas

November 26, 2018

**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Statements of Financial Position**  
**As of August 31, 2018 and 2017**

<u><b>Assets</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 903,733	\$ 639,426
Investments	101,605	101,017
Accounts receivable	64,714	64,805
Current portion of note receivable	12,000	12,000
Inventory	250	263
Total Current Assets	<u>1,082,302</u>	<u>817,511</u>
Net property and equipment	2,785,756	2,766,987
Note receivable, net	<u>67,300</u>	<u>81,000</u>
Total Assets	<u>\$ 3,935,358</u>	<u>\$ 3,665,498</u>
 <u><b>Liabilities and Net Assets</b></u>		
<b>Current Liabilities</b>		
Accounts payable	\$ 129,628	\$ 115,429
Accrued liabilities	82,848	81,648
Current portion of long-term debt	733,542	100,230
Total current liabilities	<u>946,018</u>	<u>297,307</u>
Long-term Debt, net	<u>14,606</u>	<u>747,715</u>
Total Liabilities	<u>\$ 960,624</u>	<u>\$ 1,045,022</u>
<b>Net Assets</b>		
Temporarily restricted	937,319	550,914
Unrestricted	<u>2,037,415</u>	<u>2,069,562</u>
Total Net Assets	<u>\$ 2,974,734</u>	<u>\$ 2,620,476</u>
Total Liabilities and Net Assets	<u>\$ 3,935,358</u>	<u>\$ 3,665,498</u>

accompanying notes are an integral part of these financial statements

**Calvin Nelms Charter High School, Inc**  
**DBA: Calvin Nelms Charter School**  
**Statements of Activities**  
**For the Years Ended August 31, 2018 and 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues</b>						
Local Support:						
5700 Other Revenues from Local Sources	\$ 63,586	\$ -	\$ 63,586	\$ 68,744	\$ 1,000	\$ 69,744
State Program Revenues						
5800 Foundation School Program	-	2,720,962	2,720,962	-	2,577,392	2,577,392
5800 Other State Aid	-	-	-	-	115,190	115,190
Total State Program Revenues	-	2,720,962	2,720,962	-	2,692,582	2,692,582
Federal Program Revenues:						
5900 IDEA - Part B Formula	-	56,422	56,422	-	50,702	50,702
Total Federal Program Revenues	-	56,422	56,422	-	50,702	50,702
Net Assets Released from Restrictions:						
Restrictions Satisfied by Payments	2,390,979	(2,390,979)	-	2,523,843	(2,523,843)	-
Total Revenues	\$ 2,454,565	\$ 386,405	\$ 2,840,970	\$ 2,592,587	\$ 220,441	\$ 2,813,028
<b>Expenses</b>						
Program Services:						
11 Instruction and Instructional-Related Services	1,311,664	-	1,311,664	1,406,017	-	1,406,017
13 Curriculum and Staff Development	60,131	-	60,131	60,443	-	60,443
23 Instructional and School Leadership	153,546	-	153,546	161,578	-	161,578
Support Services:						
31 Guidance, Counseling and Evaluation	116,730	-	116,730	83,611	-	83,611
34 Student Transportation	78,898	-	78,898	152,416	-	152,416
35 Food Service	89,376	-	89,376	92,785	-	92,785
36 Co curricular/Extracurricular Activities	16,878	-	16,878	16,151	-	16,151
41 Administrative Support Services	271,040	-	271,040	335,984	-	335,984
51 Facilities Maintenance and Operations	248,636	-	248,636	219,469	-	219,469
52 Security and Monitoring Services	43,779	-	43,779	6,755	-	6,755
53 Data Processing Services	46,661	-	46,661	31,390	-	31,390
71 Interest Expense	45,711	-	45,711	46,255	-	46,255
Total Expenses	\$ 2,483,050	\$ -	\$ 2,483,050	\$ 2,612,834	\$ -	\$ 2,612,834
Gain on Sale				5,791	-	5,791
Change in Net Assets	(28,485)	386,405	357,920	(14,456)	220,441	205,985
Net Assets, beginning of year	2,069,562	550,914	2,620,476	2,084,018	330,473	2,414,491
Prior period adjustment	(3,662)	-	(3,662)	-	-	-
Net Assets beginning of year, restated	2,065,900	550,914	2,616,814	-	-	-
Net Assets, ending of year	\$ 2,037,415	\$ 937,319	\$ 2,974,734	\$ 2,069,562	\$ 550,914	\$ 2,620,476

The accompanying notes are an integral part of these financial statements.

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**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Statements of Cash Flows**  
**For the Years Ended August 31, 2018 and 2017**

	2018	2017
Cash Flows from Operating Activities:		
Foundation School Program Payments	\$ 2,721,053	\$ 2,684,437
Grant Payments	56,422	50,702
Local Sources	63,586	69,744
Payments to Vendors for Goods and Services Rendered	(540,024)	(562,691)
Payment to Charter School Personnel for Services Rendered	(1,758,242)	(1,829,789)
Interest Payments	(45,711)	(46,255)
Net Cash Provided by Operating Activities	<u>497,084</u>	<u>366,148</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Assets	-	35,274
Proceeds from Note Receivable	13,700	6,800
Purchase of Equipment	(146,680)	(15,304)
Net Cash Provided/(Used) by Investing Activities	<u>(132,980)</u>	<u>26,770</u>
Cash Flows from Financing Activities:		
Payments on Long-term Debt	(99,797)	(94,730)
Net Cash (Used) by Financing Activities	<u>(99,797)</u>	<u>(94,730)</u>
Net Increase (Decrease) in Cash	264,307	298,188
Cash at Beginning of Year	<u>639,426</u>	<u>341,238</u>
Cash at Ending of Year	<u>\$ 903,733</u>	<u>\$ 639,426</u>
Reconciliation of Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Change in Net Assets	\$ 357,920	\$ 205,985
Adjustments to Reconcile change in net assets to		
Net Cash Provided by Operating Activities:		
Depreciation	127,911	167,702
Gain from sales of assets	-	(5,791)
(Increase) Decrease in Assets:		
Accounts Receivable	91	(8,145)
Inventory	13	-
Increase (Decrease) in Liabilities		
Accounts Payable	9,949	(1,753)
Accrued Liabilities	1,200	8,150
Net Cash Provided by Operating Activities	<u>\$ 497,084</u>	<u>\$ 366,148</u>

accompanying notes are an integral part of these financial statements.

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Calvin Nelms Charter High School, Inc.  
DBA: Calvin Nelms Charter School  
Notes to the Financial Statements  
For the Years Ended August 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, ("the corporation") is a Texas non-profit corporation. The corporation is governed by a Board of Directors comprised of five members. The Board is selected pursuant to the bylaws of the corporation, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the corporation.

Since the corporation received funding from the local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the corporation's board of directors. The corporation operates a single charter school and did not conduct any other charter or non-charter activities.

Basis of Accounting and Presentation

The accompany financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP) applicable to non-profit organizations.

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** - net assets that are not subject to donor-imposed stipulations. At August 31, 2018 and 2017 the unrestricted net assets were \$ 2,037,415 and \$ 2,069,562.

**Temporarily restricted** - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At August 31, 2018 and 2017 the temporarily restricted net assets were \$ 937,319 and \$ 550,914. The temporarily restricted funds are released as education expenses are incurred.

**Permanently restricted** - net assets required to be maintained in perpetuity with only the income to be used for the corporation's activities due to donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



Calvin Nelms Charter High School, Inc.  
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Notes to the Financial Statements  
For the Years Ended August 31, 2018 and 2017

Contributions

The corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statements purposes, the corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at August 31, 2018 and 2017 was \$ 903,733 and \$ 639,426.

Concentration of credit and market risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist of cash. The Corporation maintains its cash in bank deposit accounts. The amount if any that exceeds federally insured limits, the financial institution does pledge financial instruments in the Corporation's behalf. Management believes it is not exposed to any significant credit risk on cash.

Investments

Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School uses a value hierarchy established by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of hierarchy the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little of no market activity)

The School maintains certain investment accounts. The future proceeds from these accounts are intended to support the operations of the School. The School's investment objective is the preservation of capital and moderate growth. Accordingly, these investment are comprised of highly liquid, low-risk certificates of deposits.



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Investments at August 31, 2018 were carried at fair market value. The balance at August 31, 2018 were as follows:

	<b>Fair Market Value</b>	<b>Interest Rate</b>	<b>Level</b>
Certificate of Deposit	\$ 50,603	0.65%	1
Certificate of Deposit	51,002	0.65%	1
Total	<u>\$ 101,605</u>		

Investments at August 31, 2017 were carried at fair market value. The balance at August 31, 2017 were as follows:

	<b>Fair Market Value</b>	<b>Interest Rate</b>	<b>Level</b>
Certificate of Deposit	\$ 50,691	0.50%	1
Certificate of Deposit	50,326	0.55%	1
Total	<u>\$ 101,017</u>		

Inventory

Inventory is stated at cost and consist of vending supplies, at years ended August 31, 2018 and 2017 the amount of inventory was \$250 and \$263.

Property and Equipment

Capital assets, which include buildings and improvements, furniture and equipment, vehicles and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Federal Income Tax

The Corporation is a not-for profit corporation that is exempt from income taxes under Section 501( c )3 of the Internal Revenue Code. The Corporation is exempt from taxes on income other than unrelated business income, if any. For the years ending August 31, 2018 and 2017 the Corporation did not have any unrelated business income. Accordingly, the Corporation has not recorded any provision for income taxes.

Management is not aware of any violation of its tax status as an exempt organization, nor of any exposure to unrelated business income tax.

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The Corporation files form 990 as a tax-exempt organization. Internal Revenue Code Section 6501 (a) provides the general rule that the amount of any tax shall be assessed within three years after the tax return is filed. The Code provides that a return is deemed filed on the due date if it is filed early but is deemed filed on the date filed if it is filed late. As of August 31, 2018, 2016 through 2018 fiscal year tax returns are open for examination by the Internal Revenue Service.

Concentration of Risk

The Corporation is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; error and omissions; and injuries to employees and students. These risk are covered by commercial insurance purchased from independent third parties. There have been no claims that have exceeded commercial insurance coverage for the past three years.

The corporation receives 98% of their revenues through state programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. The programs administered by the corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the corporation funds may be subject to refund if so determined by the Texas Education Agency of the grantor agency.

Advertising Expense

The Corporation expenses all advertising costs as incurred. The Corporation did not report any advertising expenses for August 31, 2018 and 2017.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of account. This includes using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deduction from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Calvin Nelms Charter High School, Inc.  
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 Notes to the Financial Statements  
 For the Years Ended August 31, 2018 and 2017

Note 2: Property and Equipment

Property and Equipment assets at August 31, 2018 and 2017, being depreciated were as follows:

	2018	2017
Buildings and improvements	\$3,483,538	\$3,429,208
Vehicles and equipment	738,958	646,608
Total property and equipment	4,222,496	4,075,816
Less accumulated depreciation	(1,557,341)	(1,429,430)
Total of capital assets being depreciated	2,665,155	2,646,386

Property and improvements at August 31, 2018 and 2017, which are not being depreciated were as follows:

Land	120,601	120,601
Total of capital assets not being depreciated	120,601	120,601
Property and Equipment (net)	\$ 2,785,756	\$ 2,766,987

Property and Equipment assets acquired with public funds received by the corporation for the operation of Calvin Nelms Charter High School, Inc. DBA Calvin Nelms Charter School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 3: Accounts Receivable

Temporarily restricted net assets for the years ending August 31, 2018 and 2017 of accounts receivable consisted of

	2018	2017
Foundation School Program Act Revenues (Due from	\$ 64,714	\$ 64,805

Unrestricted net assets for the years ending August 31, 2018 and 2017 of accounts receivable consist of the following:

Other Accounts Receivable (Current portion of note	\$ 12,000	\$ 12,000
Total Accounts Receivable	\$ 12,000	\$ 12,000



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 DBA: Calvin Nelms Charter School  
 Notes to the Financial Statements  
 For the Years Ended August 31, 2018 and 2017

Note 4: Note Receivable

A note receivable was issued from a non-profit organization to the Corporation for \$119,000 in July 2014, from sale of building. The note is for 10 years with payments of \$1,000 monthly, no interest. Amount received in 2018 was \$13,700 and \$6,800 in 2017.

The note receivable is recorded at as follows:

Year ended August 31,	Principal	Total
2019	\$ 12,000	\$ 12,000
2020	12,000	12,000
2021	12,000	12,000
2022	12,000	12,000
2023-2024	31,300	45,000
	79,300	93,000
Less current portion	(12,000)	(12,000)
	<u>\$ 67,300</u>	<u>\$ 81,000</u>

Note 5: Long-Term Debt

Long-term debt at August 31, 2018 and 2017 consists of the following:

Note payable to a bank for the original amount of \$755,000 was made in 2003. In February of 2011 the note payable was converted to a fixed interest rate note, with interest at 5.10%. Principal and interest are due monthly installments varying between \$4,850 and \$5,198, commencing February 2011. Final payment is due October 8, 2019 for remaining balance. The note is secured by a first lien on land and building of the corporation.

	2018	2017
Ending Balance	\$ 72,587	\$ 128,172
Less current portion of long-term debt	(57,981)	(55,585)
Net	<u>\$ 14,606</u>	<u>\$ 72,587</u>



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A note payable to a bank for the original amount of \$1,000,000 was issued in 2008. In February of 2011 the note payable to a bank was refinanced to a fixed interest rate note for original amount of \$956,346, with at interest rate of 5.63%. Principal and interest is due in monthly installments of \$7,282 , commencing February 2011. Final payment is due April, 2019 for remaining balance, with the option to refinance. The note is secured by a first lien on land and building of the corporation.

	2018	2017
Ending Balance	\$ 675,331	\$ 719,773
Less current portion of long-term debt	(675,331)	(44,645)
Net	\$ -	\$ 675,128

Future maturities on long-term debt at August 31, 2018 are as follows:

Year ended August 31,	Principal	Interest	Total
2019	\$ 733,542	\$ 27,369	\$ 760,911
2020	14,606	35	14,641
	\$ 748,148	\$ 27,404	\$ 775,552

Note 6: Lease Commitments

During the years ended August 31, 2018 and 2017, the Corporation had an operating lease for copier. Rental expense under the operating leases for the years ended August 31, 2018 and 2017, was \$ 3,158.

Future minimum lease payments under the operating leases are as follows:

Year ended August 31	
2019	3,158
	\$ 3,158

Note 7: Defined Benefit Pension Plans

**Plan Description** . Calvin Nelms Charter School, Inc. DBA Calvin Nelms Charter School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. Known as the Teacher Retirement System of Texas it is a public employee retirement system (PERS). The plan is administered through a trust and has the following characteristics:

Contributions from employers and non-employer contributing to the pension plan and earnings on the plan are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms, and

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 For the Years Ended August 31, 2018 and 2017

Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. Plan assets are also legally protected from creditors of the plan members

Benefits are established or amended primarily under the authority of the revisions of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Cods, Title 8, Subtitle C. The pension's board of trustees does not have the authority to establish or amend benefits. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals or exceeds 80 years. The benefit formula is 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to equal the annual standard annuity. For members who are grandfathered, the three highest annual salaries are used. To be eligible for disability retirement, a member must have a physical or mental disability that precludes the member's continued performance of current duties, and the disability must be certified by the TRS Medical Board as probably permanent. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service. A member is full vested after 5 years of credited service and entitled to any benefit for which eligibility requirements have been met. The plan does not provide automatic cost of living adjustments (COLA's). Death and Survivor retirement benefits are available to the beneficiary of an active member.

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is also the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act.

As of August 31, 2018 and 2017, the numbers of participating employers were as follows:

	2018	2017
Independent School Districts	1,024	1025
Charter Schools (open enrollment only)	170	173
Community and Junior Colleges	50	50
Senior Colleges and Universities	47	49
Regional Service Centers	20	20
Medical School	9	9
Educational Districts	4	5
State Agencies	1	1
<b>Total</b>	<b>1,325</b>	<b>1,332</b>

All employees of public, state-supported educational institutions in Teas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.



Calvin Nelms Charter High School, Inc.  
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For the Years Ended August 31, 2018 and 2017

As of August 31, 2018 and 2017, TRS gross membership consisted of the following:

	2018	2017
Retired plan member or beneficiaries currently receiving benefits	407,768	393,914
Inactive plan members entitled to but not yet receiving benefits	273,056	262,353
Active plan members	864,233	847,673
<b>Total</b>	<b>1,545,057</b>	<b>1,503,940</b>

The average Expected Remaining Service life (AERSL) of 6.7724 is based on the membership information as of the beginning of the fiscal year

**Contributions.** Contribution requirements are established or amended pursuant to the following state laws: (1) Article 16, section 67 or the Texas Constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation station and a state contribute of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize the TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

On the portion of the member's salary that exceeds the stature minimum for member entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

During a new member's first 90 days of employment.

When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% or the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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The following table shows contributions to the pension fund by type of contributor:

<u>Contributor</u>	<u>Fiscal Year 2018 Contribution Rate</u>	<u>Amount</u>
Member	7.7%	\$3,360,773,197
Non-Employer Contributing Entity (State)	6.8%	1,715,784,550
Employers	6.8%	1,251,125,883
Total		<u>\$6,327,683,630</u>

<u>Contributor</u>	<u>Fiscal Year 2017 Contribution Rate</u>	<u>Amount</u>
Member	7.20%	\$2,943,669,320
Non-Employer Contributing Entity (State)	6.8%	1,675,631,248
Employers	6.8%	1,097,631,061
Total		<u>\$5,716,931,629</u>

Employers are also required to pay surcharges in the following cases;

When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the applicable salary.

When employing a retiree of the Teacher Retirement System, the employer shall pay an amount equal to the member contribution and the state contribution as an employment after retirement surcharge.

The following table shows the types of surcharges paid by the participating employers:

<u>Surcharge</u>	<u>Fiscal Year 2018 Contribution Rate</u>	<u>Amount</u>
Non-OASDI	1.50%	\$398,397,672
Employment after Retirement- Employer	6.80%	10,203,282
Employment after Retirement- Employee	7.70%	11,530,466
Total		<u>\$420,131,420</u>



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<u>Surcharge</u>	<u>Fiscal Year 2017 Contribution Rate</u>	<u>Amount</u>
Non-OASDI	1.50%	\$366,804,399
Employment after Retirement- Employer	6.80%	9,769,093
Employment after Retirement- Employee	7.20%	9,184,795
Total		<u>\$385,758,287</u>

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act established the employer contribution rate for fiscal year 2016. Contribution rates for amounts for fiscal year 2018 and 2017 as follows:

The following table shows past and future contribution rates:

	<u>Contribution Rates</u>	
<u>Year</u>	<u>Member</u>	<u>Employer</u>
2015	6.7%	6.8%
2016	7.7%	6.8%
2017	7.7%	6.8%
2018	7.7%	6.8%

**Legal Reserve Account Balances.** Section 825.309 of the Government Code requires that money in the Retired Reserve Account be used to pay all retirement annuities and all death or survivor benefits, including post-retirement benefit increases and other adjustments to annuities.

The balances in restricted for pensions as of August 31, 2018 and 2017 were:

	<u>2018</u>	<u>2017</u>
\$	147,361,922	\$ 134,008,638

**Deferred Retirement Option Program.** The Deferred Retirement Option Plan (DROP) was closed to new members on December 31, 2005. It was a plan available for active members who were eligible for normal age service retirement and had at least 25 years of credited service. They could choose to participate in 12-month increments for up to five years.

**Actuarial Assumptions:** A change was made to the measurement date of the total pension liability for the current fiscal year. The actuarial valuations was performed as of August 31, 2017. Update procedures were used to roll forward the total pension liability to August 31, 2018. This is the first year using roll forward procedures.

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The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendation by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial assumptions and assumptions were primarily based on a study of actual experience for the three year period ending August 31, 2017 and were adopted in July 2018.

The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The Post-retirement mortality rates are based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables.

The long-term expected rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future inflation. Best estimates of econometric real rates of return for each major asset class included in the allocation as of August 31, 2018.

**Discount Rate:** A single rate of 6.0-7 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the single discount rate assumed that contributions from active members, employer's and the nonemployee contributing entity will be made at the rates set via the Legislature during the 2023 legislature session. It is assumed that future employer and state contributions will be 7.76 percent and the Non-OASDI surcharge. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payment till the year 2069. As a result, the long-term expected rate of return on pension plan investments was supplied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefits payments after that date.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability with no cross-over point to a municipal bond rate.

The long-term expected rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset as of August 31, 2016 are summarized as follows:

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Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increase significantly since the prior measurement date due to a change in the following actuarial assumptions:

The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.

Demographic assumptions including post-retirement mortality, termination rate, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2018.

Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.

The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.

The long term assumed rate of return changed from 8.0 percent to 7.25 percent.

The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability

The following assumptions were applied to this measurement period:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%



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Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

***Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption*** : The following table presents the net pension liability of the plan using the discount rate of 6.907 percent, as well as what the net pension liability would be if it were calculate using a discount rat that is on percentage point lower (5.907) or one percentage point higher (7.907 percent) than the current rate.

<b><u>Sensitivity of the Net Pension Liability to the Single Discount Rate Assumptions</u></b>			
<b>1% Decrease</b>	<b>Current Single Discount Rate</b>	<b>1% Increase</b>	
<b>5.907%</b>	<b>6.907%</b>	<b>7.907%</b>	
<b>\$ 83,072,220,959</b>	<b>\$ 55,042,426,960</b>	<b>\$ 32,350,646,325</b>	

The following information was reported for Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School:

Net Pension Liability Beginning of Year	\$ 279,556
Contributions per TEAM (as adjusted)	(28,418)
Contribution Adjustments	55

Subtotal Plan 2017 Layer Pension Expense (Current Year Expensing of Current Year's Layers)	32,321
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Deferred Outflows/(Inflows)for Current Year Experience

Difference Between Expected and Actual Actuarial Experience	(7,163)
Change in Actuarial Assumptions	5,177
Difference Between Projected and Actual Investment Earnings	(44,145)

Changes in Proportion and Difference between Employer Contributions and Proportionate Share	40,864
Net Pension Liability End of Year	\$ 277,247

Sum of All Layers (2014, 2015, 2016, 2017) of Deferred Outflows as of 8/31/17

Difference Between expected and Actual	\$ 4,056
Projected and Actual Investment Earnings	53,871
Changes in Assumptions	12,629
Difference Between Projected and Actual	42,637
Change in Proportion and Differences Between	146,525
Total Deferred Outflows	\$ 205,847



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 For the Years Ended August 31, 2018 and 2017

Sum of All Layers (2014, 2015, 2016, 2017) of Deferred Inflows as of 8/31/17

Difference Between Expected and Actual		
Actuarial Experience	\$	14,952
Changes in Assumptions		7,230
Difference Between Projected and Actual		
Investment Earnings		62,843
Changes in Proportion and Difference between		
Employer Contributions and Proportionate Share		13,525
Total Deferred Inflows	\$	98,550
Pension Expenses Total		
Subtotal Plan 2017 Layer Pension Expense		
(Current Year Expensing of Current Year's	\$	25,214
Layers)		
Subtotal Plan 2017 Layer Pension Expense		
(Current Year Expensing of Prior Years' Layers		2,574
Only)		
Total plan 2017 Pension Plan Expense Before		27,788
Employer Specific Adjustments		
Employer Specific Adjustments Net		
Amortization of Deferred Amounts from		
Changes in Proportion and Differences Between		31,592
Employer Contributions and Proportionate Share		
of Contributions		
2017 Grand Total Pension Expense	\$	59,380
Proportionate Share		0.000008670854

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Calvin Nelms Charter High School, Inc.  
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Notes to the Financial Statements  
For the Years Ended August 31, 2018 and 2017

Note 8: Health Care Coverage

During the years ended August 31, 2018 and 2017 employees of the corporation were covered by a Health Insurance Plan (the Plan). The corporation contributed \$ 250.00 per month per employee in 2018 and \$225 in 2017 per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers. Health insurance cost for 2018 and 2017 were as follows: \$58,597 and \$50,791.

Note 9: Commitments and Contingencies

The corporation receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the corporation funds may be subject to refund if so determined by the Texas Education Agency of the grantor agency.

Note 10: Litigation

No reportable litigation was pending against the Corporation at August 31, 2018 and 2017.

Note 11: Related Party Transactions

The Corporation paid Ron Nelms, employee, Superintendent for the 17-18 fiscal year, compensation of \$ 125,425 and benefits of \$78. Mr. Nelms also served on the board during the 17-18 fiscal year. Russell Faulk, financial employee, son in law of Ron Nelms, compensation of \$99,850 and \$3,078 in benefits.

Note 12: Prior Period Adjustment

A prior period adjustment was made in the amount of \$3,662 for accumulated depreciation.

Note 13: Subsequent Event

There were no subsequent events determined by management subsequent to the Statements of Financial Position and through November 26, 2018, which approximates the date the financial statements are available to be issued.



**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Schedule of Expenses**  
**For the Years Ended August 31, 2018 and 2017**

Expenses		Totals	Totals
		2018	2017
6100	Payroll Costs	\$ 1,744,456	\$ 1,846,089
6200	Professional and Contracted Services	222,674	271,486
6300	Supplies and Materials	245,449	187,658
6400	Other Operating Cost	224,760	261,346
6500	Interest	45,711	46,255
	Total Expenses	<u>\$ 2,483,050</u>	<u>\$ 2,612,834</u>

**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Schedule of Capital Assets**  
**For the Years Ended August 31, 2018 and 2017**

	Ownership Interest 2018			Ownership Interest 2017		
	Local	State	Federal	Local	State	Federal
1110 Cash	\$ 903,733	\$ -	\$ -	\$ 639,426	\$ -	\$ -
1120 Investments	101,605	-	-	101,017	-	-
1510 Land and Improvements:	120,601	-	-	120,601	-	-
1520 Buildings and Improvements:	3,359,248	-	124,290	3,304,918	-	124,290
1531 Vehicles:	399,404	-	-	399,404	-	-
1539 Furniture and Equipment:	256,959	46,309	36,286	164,609	46,309	36,286
Total Property and Equipment	<u>\$ 5,141,550</u>	<u>\$ 46,309</u>	<u>\$ 160,576</u>	<u>\$ 4,729,975</u>	<u>\$ 46,309</u>	<u>\$ 160,576</u>
			<u>\$ 5,348,435</u>			<u>\$ 4,936,860</u>

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Calvin Nelms Charter High School, Inc.  
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Budgetary Comparison Schedule  
For the Years Ended August 31, 2018 and 2017

	2018				2017			
	Budgeted Amounts		Actual Amounts	Variance from Final Budget	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final			Original	Final		
<b>Revenues</b>								
Local support:								
5740 Other Revenues from Local Sources	\$ 75,102	\$ 75,102	\$ 63,586	\$ (11,516)	\$ 90,770	\$ 97,012	\$ 69,744	\$ (27,268)
State Program Revenues								
5800 State Program Revenues	2,542,778	2,542,778	2,720,962	178,184	2,677,161	2,677,161	2,692,582	15,421
Federal program revenues:								
5920 Federal Revenues Distributed by the Texas Education Agency	56,422	56,422	56,422	-	49,462	50,702	50,702	-
Total Revenues	2,674,302	2,674,302	2,840,970	166,668	2,817,393	2,824,875	2,813,028	(11,847)
<b>Expenses</b>								
11 Instruction and Instructional-Related Services	1,431,042	1,406,042	1,311,664	94,378	1,564,204	1,514,030	1,406,017	108,013
13 Curriculum and Staff Development	58,000	61,000	60,131	869	66,770	66,769	60,443	6,326
23 Instructional and School Leadership	151,026	160,000	153,546	6,454	206,403	206,403	161,578	44,825
31 Guidance, Counseling and Evaluation	163,080	157,580	116,730	40,850	123,913	125,153	83,611	41,542
34 Student Transportation	87,586	95,500	78,898	16,602	111,482	111,482	152,416	(40,934)
35 Food Service	75,102	88,345	89,376	(1,031)	90,770	97,012	92,785	4,227
36 Co curricular/Extracurricular Activities	23,500	25,000	16,878	8,122	27,325	27,326	16,151	11,175
41 Administrative Support Services	274,773	274,773	271,040	3,733	337,812	355,000	335,964	19,036
51 Facilities Maintenance and Operations	305,975	275,805	248,636	27,169	213,314	230,000	219,469	10,531
52 Security and Monitoring Services	10,000	48,000	43,779	4,221	6,700	8,000	6,755	1,245
53 Data Processing Services	49,500	49,500	46,661	2,839	18,000	33,000	31,390	1,610
71 Interest Expense	44,718	46,000	45,711	289	50,700	50,700	46,255	4,445
Total Expenses	2,674,302	2,687,545	2,483,050	204,495	2,817,393	2,824,875	2,612,834	212,041
Gain on sale of Asset	-	-	-	-	-	-	5,791	5,791
Change in Net Assets	-	(13,243)	357,920	371,163	-	-	205,985	205,985
Net Assets, beginning of year	2,620,476	2,620,476	2,620,476	-	2,414,491	2,414,491	2,414,491	2,414,491
Prior period adjustment	-	-	(3,662)	-	-	-	-	-
Net Assets, beginning of year, restated	2,620,476	2,620,476	2,616,814	-	2,414,491	2,414,491	2,414,491	-
Net Assets, ending of year	2,620,476	2,607,233	2,974,734	371,163	2,414,491	2,414,491	2,620,476	205,985

The accompanying notes are an integral part of these financial statements.

# TONJA BARNEBEE CPA, PC

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of

Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued my report thereon dated November 26, 2018.

#### **Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's internal control. Accordingly, I do not express an opinion on the effectiveness of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Tonja Barnebee CPA, P.C.***

Tonja Barnebee CPA, P.C.

Ennis, Texas

November 26, 2018